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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2021	Docket No. ACR2021

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-2 OF CHAIRMAN'S INFORMATION REQUEST NO. 24

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 24, issued on March 9, 2022. Each question is stated verbatim and followed by the response.

Respectfully submitted,

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RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 24

1. In the *FY 2021 Annual Report*, the Postal Service continues its past practice of using Controllable Income (Loss), rather than net income (loss), as the performance indicator for the Financial Health performance goal. *FY 2021 Annual Report* at 46. Controllable Income (Loss) is a non-GAAP accounting measure that excludes certain expenses that the Postal Service considers "not reflective of short-term operational decisions and . . . subject to large fluctuations outside the organization's control." *Id.* These expenses include: revaluations of the Postal Service Retiree Health Benefits Fund (PSRHBF) normal cost; the amortization of the Postal Service's unfunded PSRHBF liabilities; the amortization of unfunded liabilities for the Postal Service's participation in the Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS); and non-cash expenses related to changes in the liability for participation in the Federal workers' compensation program. *Id.*

a. In Order No. 5763, issued in FY 2021, the Commission authorized the Postal Service to begin using various discrete forms of above-CPI rate authority intended to remedy what the Commission found to be specific deficiencies in the postal ratemaking system.[1] One of the specific forms of above-CPI rate authority that the Commission authorized was retirement-based rate authority. *Id.* at 100-31. This rate authority was designed to provide the Postal Service with revenue to address statutorily mandated amortization payments for retirement costs, which the Commission determined were beyond the Postal Service's control.[2] In the first rate adjustment proceeding following implementation of the rule changes promulgated in Order No. 5763, the Postal Service made use of the full amount of retirement-based rate authority available to it—1.062 percentage points.[3] Considering the foregoing, please explain the Postal Service's basis for continuing to classify the amortization of the Postal Service's unfunded PSRHBF liabilities and the amortization of unfunded liabilities for participation FERS and CSRS as non-controllable expenses.

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[1] Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, November 30, 2020 (Order No. 5763).

[2] *Id.* The Commission notes that as of March 8, 2022, the Postal Service Reform Act of 2022, H.R. 3076, 117th Cong. (2022), has been passed by both the House of Representatives and the Senate. This postal reform legislation includes, *inter alia*, the USPS Fairness Act, which would amend existing 5 U.S.C. § 8909a by cancelling any remaining financial obligation on the Postal Service's part with respect to the PSRHBF prefunding requirement from the Postal Accountability and Enhancement Act of 2006 (PAEA). H.R. 3076, 117th Cong. § 102(c) (2022); *see* PAEA § 803(a), Pub. L. 109-435, 120 Stat. 3198, 3251-3252 (2006). As the Commission explained in Order No. 5763, should the Postal Service Reform Act of 2022 be enacted into law, the Commission will exercise its rulemaking authority to make any necessary modifications to the retirement-based rate authority. Order No. 5763 at 318 n.403.

[3] *See* Docket No. ACR2020, Determination of Available Market Dominant Rate Authority, April 6, 2021, at 4-6 (Order No. 5861); Docket No. R2021-2, United States Postal Service Notice of Market Dominant Price Change, May 28, 2021, at 3.

b. In addition to retirement-based rate authority, Order No. 5763 also provided the Postal Service with other discrete forms of above-CPI rate authority, including density-based rate authority and rate authority for non-compensatory products and classes. Order No. 5763 at 72-99, 181-97. In Docket No. R2021-2, the Postal Service made use of the full amount of rate authority available to it under these mechanisms.[4] Given these changes in the Postal Service's revenue position, please explain what consideration, if any, the Postal Service has given to using a standard GAAP measure such as net income (loss) as a performance indicator for the Financial Health performance goal, rather than Controllable Income (Loss).

RESPONSE:

a. The Postal Service classifies PSRHBF, FERS and CSRS amortization expenses as non-controllable expenses because they are subject to large variations which are outside management's control, other than in the very long-term through complement changes. The purpose of the controllable income (loss) metric is to measure the Postal Service's performance, and this is done most effectively by measuring those revenues and expenses over which management has a greater degree of influence.

The retirement rate authority granted by Order No. 5763 does not make these expenses more predictable. Further, it does not make the impact of these expenses on net income (loss) more predictable when planning for the next year, since the authority granted in any given year is independent of the amortization expenses in that year. And, even if this were not the case, the retirement rate authority does not generate sufficient revenue to offset

[4] *See* Order No. 5861 at 2-4, 6; Docket No. R2021-2, United States Postal Service Notice of Market-Dominant Price Change, May 28, 2021, at 3.

amortization expenses, both because it affects only the revenue generated from market dominant products and because of the gradual phase in of the full rate authority.

Therefore, the Postal Service currently plans to continue to classify PSRHBF, FERS and CSRS amortization expenses as non-controllable expenses.

b. The Postal Service does not intend to use net income (loss) as a performance indicator. Controllable income (loss) remains a more relevant performance indicator than net income (loss). Expenses which are classified as non-controllable are subject to large swings over which management has virtually no influence. For example, the non-cash change in workers' compensation liability has varied from -2.2. billion to +2.2 billion in the last five years alone, due to changes in discount rate, inflation and actuarial assumptions over which management has no control.

The additional authority cited by the Commission has no impact on the unpredictability of our non-controllable expenses. It further has no impact on the predictability of income within a given year, since the authority granted in any year is unrelated to the amortization expenses in that same year. Therefore, there is no reason why the provision of density-based and retirement-based rate authority would impact the decision to use controllable income (loss) as a performance indicator instead of net income (loss).

2. The CARES Act, Pub. L. 116-636 (March 27, 2020), provided the Postal Service with $10 billion in additional borrowing authority, in addition to the $15 billion ordinarily available to it pursuant to 39 U.S.C. § 2005(a), if necessary to cover increased operating expenses associated with the COVID-19 pandemic.[5] Appropriations legislation enacted on December 27, 2020 removed the requirement that the Postal Service repay funds borrowed pursuant to the CARES Act.[6] The Postal Service reported that as of July 29, 2021, all $10 billion had been received from the U.S. Treasury.[7] Please refer to the tables on pages 24 and 47 of the *FY 2021 Annual Report* and explain whether, and if so, how, they account for the $10 billion that the Postal Service received in FY 2021.

RESPONSE:

In 2021, $8.7 billion of the CARES Act funding was spent on compensation and benefits, and $1.3 billion was spent on transportation expenses. These expenses are included in the FY 2021 totals for the "Compensation and benefits" expense line in the table on page 24, the "Salaries and benefits" expense line in the table on page 47, and the "Transportation" expense line in the tables on pages 24 and 47. Further, the $10 billion from the CARES Act is reflected in the "Cash and cash equivalents" line and "Total net deficiency" line of the table on page 24.

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[5] Pub. L. 116-636 § 6001(b).

[6] Pub. L. 116-260, Division N, Title VIII, § 801, 134 Stat. 1182, 2119 (December 27, 2020).

[7] United States Postal Service, Annual Report on Form 10-K, November 10, 2021, at 3 (FY 2021 10-K).